

VZCZCXRO9508
RR RUEHDBU RUEHLN RUEHVK RUEHYG
DE RUEHTA #0889/01 3540358
ZNR UUUUU ZZH
R 200358Z DEC 06 ZFR ZFR ZFR
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC 7989
INFO RUCNCIS/CIS COLLECTIVE

UNCLAS SECTION 01 OF 03 ASTANA 000889

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR SCA/CEN - O'MARA

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [ENRG](#) [EPET](#) [KZ](#)

SUBJECT: Kazakhstan: Economy Minister Comments on Tengiz Brawl

REF: A: Astana 501; B: Astana 737

ASTANA 00000889 001.2 OF 003

ZFR ZFR ZFR ZFR ZFR ZFR

MSG WILL BE SENT AGAIN UNDER NEW MRN

¶1. (SBU) Summary. In a December 6 meeting with the Ambassador, Economy Minister Musin identified the inadequacy of Kazakh workers' wages as a key contributor to the recent "Tengiz brawl." Even though an oil company might allocate funds for a decent wage, Musin explained, by the time a contractor and sub-contractor took their cut, only a fraction of that wage reached the workers - a result the Minister termed a "social injustice." End summary.

¶2. (SBU) In a December 6 meeting with the Ambassador, new Economy Minister Aslan Musin added to our insight on the economic context of what has become known as the "Tengiz brawl" (Ref A). A key problem, UNCLASSIFIED

SIPDIS
PROG 12/12/06
AMB:JORDWAY
POEC:SMIKHELSON/JLOVELAND
DCM:KMILAS; POEC:DMENNUTI
POLA DCM DAO FCS

AMEMBASSY ASTANA
SECSTATE WASHDC
INFO CIS COLLECTIVE

SENSITIVE
SIPDIS

DEPT FOR SCA/CEN - O'MARA

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [ENRG](#) [EPET](#) [KZ](#)

SUBJECT: KAZAKHSTAN: SAMRUK'S NEW BOARD CHAIRMAN DEALS WITH EXPANSION, GOVERNANCE

REF: A) ALMATY 3278, B) Almaty 3178, C) Astana 147

¶1. (SBU) Summary: On December 8, Sir Richard Harry Evans, the newly appointed Chairman of the Board of Directors of the Samruk State Holding Company, discussed with the Ambassador his uphill battle in establishing proper corporate oversight over the Samruk companies, working with the GOK, and plans for Air Astana. End summary.

¶2. (SBU) Background: Samruk, the national holding company based on Singapore's Temasek, was established in January to provide state-owned companies with professional management (Ref A). The appointment of Evans as Chairman of the Board in November roughly coincided with the announcement that another 17 companies would join the original five in Samruk's fold. Evans has a prior indirect connection to Samruk: he is the former chairman of BAE Systems, a British giant with a 49% stake in Air Astana. Air Astana, the de facto national airline in which the GOK currently holds a 51% stake, is one of Samruk's 17 "new arrivals."

¶3. (SBU) The seventeen "new arrivals," along with their state ownership share, are:

In Power Generation and Distribution:
- KazKuat (100%)
- Ekibastuz Energy Center (100%)
- Kazakhstan Electrical Energy & Capacity Operator (100%)
- Mangistauskaya Electrical Distribution & Grid Company (94.25%)
- Shulbinskaya Hydro Power Station (92.13%)
- Bukhtarminskaya Hydro Power Station (90%)
- Ust-Kamenogorskaya Hydro Power Station (89.99%)
- Astana Energy Service (61.72%)
- Kazakh Scientific Research Institute of the Power Sector (50%)

In Transportation:

- ## Samruk Becomes an "Investor"

¶10. (SBU) "All of the five [original] companies have pretty substantial growth prospects," said Evans. He acknowledged that with the current round of expansion, Samruk is considering adopting an investment strategy. (Note: Samruk's initial focus was only on the management of state assets. End note.) However, he added, Samruk already has its hands full and should limit its investment activity to the core areas of its original five companies. Another problematic issue here, he said, is the possibility of competing with Kazyna, which "makes no sense." (Note: The Kazyna Fund for Sustainable Development is the GOK's other holding company, encompassing a number of state-owned institutions charged with realizing the GOK's goal of economic diversification away from energy. End note.) "My feeling," Evans continued, "is that eventually, there needs to be some sort of co-existence with Kazyna."

ASTANA 00000889 003.2 OF 003

Not a merger but a superstructure."

The Plan for Air Astana: Hire Crews, Lease Planes

ZFR ZFR ZFR ZFR ZFR ZFR ZFR

MSG WILL BE SENT OUT UNDER NEW MRN

¶11. (SBU) Addressing Air Astana, Evans said he believes the airline should continue to lease, not buy, its aircraft. He also stated that the decision should rest with professional managers, not the government. Between now and fall 2007, he said, the airline needs to hire an additional 600 to 700 crew members, adding to the current total of 2,300. Air Astana is also considering a long-term training program for pilots, Evans said. (Note: Another Samruk insider tells us that there is a plan for the GOK and BAE Systems to draw down their ownership of Air Astana in parallel; the resulting shares will be distributed to the airline's employees. End note.)

¶12. (SBU) On the choice between Boeing and Airbus aircraft, Evans said "in narrow-body aircraft, the products are very similar; what swings the decision is advantages in maintenance. In wide bodies, Boeing is better. The 777 is probably the best product."

Comment

¶13. (SBU) Comment: Samruk's current expansion, which its executives have told us will not be the last, signals growth not only in the company's size but also its mandate. Towering over 22 state-owned companies, Samruk looks quite different from its original incarnation as the holding company dedicated merely to professional management of "strategic state assets." Notably, with the arrival of "the new 17," Samruk already finds itself as a minority shareholder in two companies; the number is likely to increase as the GOK sheds shares through planned IPOs and privatizations. It is still unclear whether Samruk will become primarily a stepping stone for privatizing state-owned companies or a de facto investment vehicle for the GOK. In a sign that Samruk may not be too quick to relinquish to the market much of its newly acquired holdings, one insider told us that a new government resolution will soon formalize Samruk's mandate not only as a "management company" but an "investment company" as well. End comment.

MILAS